Foreclosure Crisis in New York City: Causes and Consequences

American Planning Association: New York Metro Chapter

Max Weselcouch
February 16, 2012
Foreclosure Start Rates
United States, Quarterly

Source: Mortgage Bankers Association, National Delinquency Survey
Foreclosure Start Rates
United States, Quarterly

Source: Mortgage Bankers Association, National Delinquency Survey
Foreclosure Start Rates
United States, Quarterly

Source: Mortgage Bankers Association, National Delinquency Survey
Percent of Mortgage Debt 90+ Days Past Due, by State

Source: Federal Reserve Bank of New York
Foreclosure Starts
New York City, Quarterly

Source: Public Data Corporation, Furman Center
### Foreclosures in the US & NYC

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronx</td>
<td>829</td>
<td>1,254</td>
<td>1,660</td>
<td>1,628</td>
<td>1,962</td>
<td>1,974</td>
<td>1,617</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>2,586</td>
<td>3,569</td>
<td>5,310</td>
<td>5,067</td>
<td>6,984</td>
<td>6,240</td>
<td>4,772</td>
</tr>
<tr>
<td>Manhattan</td>
<td>179</td>
<td>207</td>
<td>262</td>
<td>334</td>
<td>724</td>
<td>722</td>
<td>536</td>
</tr>
<tr>
<td>Queens</td>
<td>2,457</td>
<td>3,716</td>
<td>5,964</td>
<td>6,235</td>
<td>8,294</td>
<td>6,246</td>
<td>4,158</td>
</tr>
<tr>
<td>Staten Island</td>
<td>784</td>
<td>989</td>
<td>1,262</td>
<td>1,538</td>
<td>2,138</td>
<td>1,729</td>
<td>1,059</td>
</tr>
<tr>
<td>New York City</td>
<td>6,835</td>
<td>9,735</td>
<td>14,458</td>
<td>14,802</td>
<td>20,102</td>
<td>16,911</td>
<td>12,142</td>
</tr>
<tr>
<td>U.S.</td>
<td>885,462</td>
<td>1,259,098</td>
<td>2,203,295</td>
<td>3,157,806</td>
<td>3,957,643</td>
<td>3,825,637</td>
<td>2,698,967</td>
</tr>
</tbody>
</table>

*Source: Public Data Corporation, Furman Center, Realty Trac*
Foreclosure Process in NYC

Lis Pendens
Foreclosure Process in NYC

- Lis Pendens
- Cure
- Refinance
- Arms Length Sale
- Short Sale
- Sale to a 3rd Party
- REO
Foreclosure Process in NYC

Lis Pendens  →  Modification
Foreclosure Process in NYC

Lis Pendens

Auction

Sale to a 3rd Party

REO
Outcomes of Properties that Received a Lis Pendens in 2007

- No Further Action: 33.8%
- Arms Length Sale: 16.9%
- Sold at Auction to a 3rd Party: 3.2%
- REO: 16.6%
- Another Lis Pendens: 24.2%
- Other Deed Transfer: 5.2%
State Foreclosure Timelines

Source: Realty Trac

NYU’s Furman Center for Real Estate and Urban Policy
Reasons for Rise in Foreclosures

- Risky underwriting
  - Over-leveraged borrowers
  - High debt to income ratios
- Economic downturn
  - Job losses among borrowers
- Fall in house prices
High Cost Lending Rate
Conventional, First-lien, Home Purchase Loans

Source: Home Mortgage Disclosure Act, Furman Center

NYU’s Furman Center for Real Estate and Urban Policy
## Loan-to-Value at Origination
### Median, 1-4 Family Homes and Condos

<table>
<thead>
<tr>
<th>Location</th>
<th>2003</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>0.90</td>
<td>0.94</td>
</tr>
<tr>
<td>Bronx</td>
<td>0.90</td>
<td>0.95</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>0.89</td>
<td>0.93</td>
</tr>
<tr>
<td>Manhattan</td>
<td>0.84</td>
<td>0.80</td>
</tr>
<tr>
<td>Queens</td>
<td>0.90</td>
<td>0.95</td>
</tr>
<tr>
<td>Park Slope/Carroll Gardens</td>
<td>0.80</td>
<td>0.80</td>
</tr>
<tr>
<td>Brownsville</td>
<td>0.95</td>
<td>1.00</td>
</tr>
<tr>
<td>Bayside</td>
<td>0.75</td>
<td>0.80</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.95</td>
<td>1.00</td>
</tr>
</tbody>
</table>
Unemployment Rose Dramatically

Source: Public Data Corporation, Furman Center

NYU’s Furman Center for Real Estate and Urban Policy
Housing Price Indexes

Index = 100 in January 2000

Source: Case-Shiller House Price Indexes, NYC Dept. of Finance, Furman Center
Share of Loans Underwater
1-4 Family Homes and Condos, purchased since 2003

Source: NYC Department of Finance, Furman Center
Share of Loans Underwater
1-4 Family Homes and Condos, purchased since 2003

Source: Public Data Corporation, Furman Center

NYU’s Furman Center for Real Estate and Urban Policy
Why Should We Care?

- Foreclosures are concentrated
- Foreclosures cause property values to fall
- Foreclosures are associated with increased crime
- Renters are affected by foreclosure
- Children are affected by foreclosure
Foreclosures are Concentrated

Lis Pendens Filings, 2011

Source: Public Data Corporation, Furman Center
... in minority neighborhoods

Share non-white

- 16% - 37%
- 37% - 58%
- 58% - 76%
- 76% - 89%
- 89% - 99%

Source: Public Data Corporation, American Community Survey, Furman Center
Why Should We Care?

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Neighborhood Effects: Surrounding Property Values Fall

- One *lis pendens* within 250 feet reduces the sale price of a home by 2%

- Three *lis pendens* within 500 feet reduces the sale price of a home by 3%

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Neighborhood Effects:
How might foreclosures affect crime?

- Disinvestment/Disrepair
- Neighborhood Disengagement
- Turnover
- Vacancy/Abandonment

(Broken windows) (Social control) (Eyes on the street; targets)
Neighborhood Effects: Increase in Crime

- An increase in foreclosure activity on a given blockface is correlated with an increase in crime on the blockface.
  - No evidence that crime today predicts future foreclosure activity.
- Effects are strongest for violent crime and public order crime.

Why Should We Care?

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## Estimated Share of Households in Foreclosed Buildings Who Are Renters

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<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronx</td>
<td>62.9%</td>
<td>69.3%</td>
<td>66.7%</td>
<td>65.1%</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>57.4%</td>
<td>59.3%</td>
<td>61.0%</td>
<td>56.7%</td>
</tr>
<tr>
<td>Manhattan</td>
<td>87.4%</td>
<td>77.7%</td>
<td>96.0%</td>
<td>88.9%</td>
</tr>
<tr>
<td>Queens</td>
<td>40.0%</td>
<td>39.6%</td>
<td>41.6%</td>
<td>38.6%</td>
</tr>
<tr>
<td>Staten Island</td>
<td>27.1%</td>
<td>26.3%</td>
<td>25.9%</td>
<td>26.5%</td>
</tr>
<tr>
<td>NYC</td>
<td>52.6%</td>
<td>54.4%</td>
<td>66.5%</td>
<td>56.8%</td>
</tr>
</tbody>
</table>
Why Should We Care?

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Household Effects:
School Mobility

- Children living in foreclosed homes are more likely to change schools.

- New schools tend to be of poorer quality.
Loan Modifications

- From November 2007 through March 2011, over 2.1 million mortgages were modified\(^1\)
- Successful modifications could benefit the
  - Borrower
  - Lender
  - Servicer
  - Neighborhood

HAMP

- Introduced in 2009

- Borrower eligibility
  - Delinquent on loan (or at imminent risk of default)
  - Owner occupied property
  - Mortgage originated before January 1, 2009
  - Mortgage balance less than $729,750

- Monthly payments are reduced to 31% of a borrower’s income by:
  - Reducing the interest rate
  - Extending the loan term
  - Forbearing principal (and waive interest on deferred amount)
  - (Servicers may also forgive principal at any step in the process)
Loan Modifications

- Delinquent loans are more likely to be modified:
  - if they are non-prime
  - as LTV rises
  - if borrowers have not already experienced a large drop in their credit score
  - if the borrower received foreclosure counseling
Performance of Loan Modifications

- Studied 6,541 loans that received a modification between January 2008 and November 2010.
  - 2,159 HAMP Modifications
  - 4,382 non-HAMP Modifications
- 29.3% re-defaulted after modification
Successful Modifications

- HAMP modifications have a 35% lower conditional odds of re-default than non-HAMP modifications.

- A 1 percentage point increase in the percent of payment reduction is associated with a 1.6% decline in the conditional odds of redefault.
Successful Modifications

- Principal Reductions
  - A 1 percentage point increase in the percent of balance reduction is associated with a 1.6% decline in the conditional odds of redefault

- Interest Rate Reduction
  - A 1 percentage point decrease in the interest rate is associated with a 10% decline in the conditional odds of redefault

- Term Extension
  - No independent effects after controlling for the monthly payment reduction
Modifications

- We find difference in the performance of loans modified by different servicers.

- Foreclosure counseling has no effect on the probability of redefault even though counseling is associated with a greater propensity to modify.
Policy Implications

- Principal balance reductions are the most helpful kind of modification.

- Foreclosure counseling has positive impacts for borrowers.
Thank You

Max Weselcouch
max.weselcouch@nyu.edu